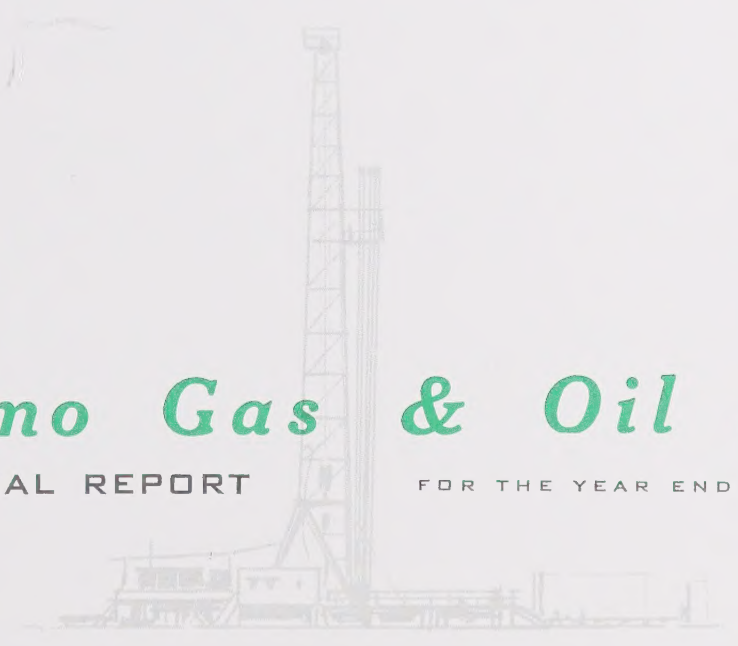




Permo Gas & Oil Limited

ANNUAL REPORT

FOR THE YEAR ENDED AUGUST 31, 1970

A member of the DYNAMIC GROUP

ANNUAL REPORT

August 31, 1970

Permo Gas & Oil Limited

(Incorporated under the laws of Ontario)

*A member of the Dynamic Group**

DIRECTORS ROBERT CLIVE BROWN, *Calgary*
FRANK BROWN, *Calgary*
ARCHIBALD PARK NEWALL, JR., *Calgary*

OFFICERS ROBERT CLIVE BROWN, *President*
ARCHIBALD PARK NEWALL, JR., *Vice-President*
ERIC F. LOWICK, *Secretary*
ROGER D. PAUGH, *Treasurer*
GORDON WALDIE, Q.C., *Assistant Secretary*

HEAD OFFICE 210, 736 - 8TH AVENUE S.W.
CALGARY 2, ALBERTA

AUDITORS CLARKSON, GORDON & CO., *Calgary*

BANKER THE ROYAL BANK OF CANADA, *Calgary*

REGISTRAR THE CANADA TRUST COMPANY, *Toronto*

TRANSFER AGENTS THE CANADA TRUST COMPANY, *Toronto*
NATIONAL TRUST COMPANY, LIMITED, *Calgary*

SHARES LISTED TORONTO STOCK EXCHANGE, *Toronto*

* The term "Dynamic Group of Companies" is used to refer to the following companies collectively: Permo Gas & Oil Limited and its subsidiaries, New Continental Oil Company of Canada Limited and Consolidated East Crest Oil Company Limited, together with affiliated companies, Dynamic Petroleum Products Ltd., Royal Canadian Ventures Ltd., Mill City Petroleums Limited, Crusade Petroleum Corporation Limited, Dynalta Oil & Gas Co. Ltd., and Dynamic Mining Exploration Ltd. (No Personal Liability). These companies are separate and distinct Canadian corporations having an interlocking directorate, interlocking share positions, common management and the same executive offices.

TO THE SHAREHOLDERS:

The annual report and consolidated financial statements of the company and its subsidiaries, New Continental Oil Company of Canada Limited and Consolidated East Crest Oil Company Limited, for the year ended August 31, 1970 are presented herewith.

During the year under review the company's subsidiaries continued to participate with associated companies within the Dynamic Group in numerous widespread mineral exploration programs in the Provinces of British Columbia, Saskatchewan and Manitoba and in the Northwest Territories. These programs, which are covered in greater detail elsewhere in this report, have resulted in the proving up of additional reserves of uranium in the Baker Lake region of the Northwest Territories and of substantial tonnages of low-grade porphyry copper ore in the Barriere Lake area near Kamloops, British Columbia. Many other mineral prospects in western Canada have been up-graded to the stage where they are now ready for diamond drilling.

The exploration and development operations conducted by Gulf Minerals Company in the Wollaston Lake area of the Province of Saskatchewan are of particular significance to our shareholders. These operations are hereinafter covered in greater detail and it is sufficient to reiterate here that the Rabbit Lake ore body has been defined and very substantial uranium reserves have been proven. Furthermore, a joint venture agreement between Gulf Minerals Canada Limited and Uranerz Canada Limited has been finalized which will, among other things, provide for the marketing of all U_3O_8 in the form of uranium concentrate produced from a mine-mill complex to be built at a cost of approximately \$50,000,000. The mill will be capable of processing 2,000 tons of ore per day or 680,000 tons per year (340 working days) from the Rabbit Lake ore body. In addition, Gulf's exploratory operations have outlined several new uranium prospects which will be evaluated during 1971 by diamond drilling.

Effective March 1, 1964, Permo sold its interest in producing properties in the Fort St. John and Southeast Fort St. John gas fields of the Province of British Columbia for the sum of \$989,700, subject to the right to receive 90% of net income accruing to the interest disposed of after the purchaser has recovered \$1,094,500 out of such net income. As at August 31, 1970 the purchaser has recovered \$931,250 leaving a balance of \$163,250 to be recovered before Permo will be entitled to this source of revenue.

Consolidated working capital increased during the year from \$323,947 to \$427,057.

Accompanying this report are schedules showing the company's interests in petroleum and natural gas and mineral properties at August 31, 1970.

The directors wish to express their appreciation to the shareholders for their interest in the affairs of the company and to the employees for their loyalty and personal interest in our activities.

On behalf of the Board,

R. C. Brown
President

January 29, 1971.

MINING EXPLORATION AND DEVELOPMENT

BRITISH COLUMBIA

In the Province of British Columbia the Dynamic Group of companies operates under the name of Royal Canadian Ventures Ltd. from an office in Kamloops, B.C. During 1970 an active exploration program was continued. Several new properties were added, others were up-graded, while some were surrendered. Activities have been largely centered around the Kamloops area and northward as far as Kliyu Creek. At December 31, 1970 a total of 1,149 mineral claims and 2 mineral leases were held by the Group in 17 separate properties. The various properties are shown by areas on the map of British Columbia accompanying this report. Following are more detailed particulars pertaining to certain of these areas. The company's subsidiaries have an aggregate 28.6% working interest in these properties with the exception of Areas 17, 18 and 19.

Area 1

In this area the Dynamic Group holds 80 mineral claims known as the Kliyu Creek Group located approximately 64 miles northwest of Finlay Forks, B.C. These claims were staked on a strong stream copper anomaly as a result of the original geochemical survey. Extensive areas of pyrite mineralization are present and additional work on the property is planned during 1971.

Area 3

In this area which is located about 48 miles northwest of Endako, B.C., the Dynamic Group holds 107 mineral claims known as the Babine Lake Group of which 70 claims were staked during 1970. To date extensive geologic mapping, geochemical and geophysical surveys have been conducted on the property. Further work on the property is planned during 1971.

Area 4

In this area which is located approximately 50 miles southwest of Williams Lake, B.C., the Dynamic Group holds 174 mineral claims. A geochemical anomaly located on

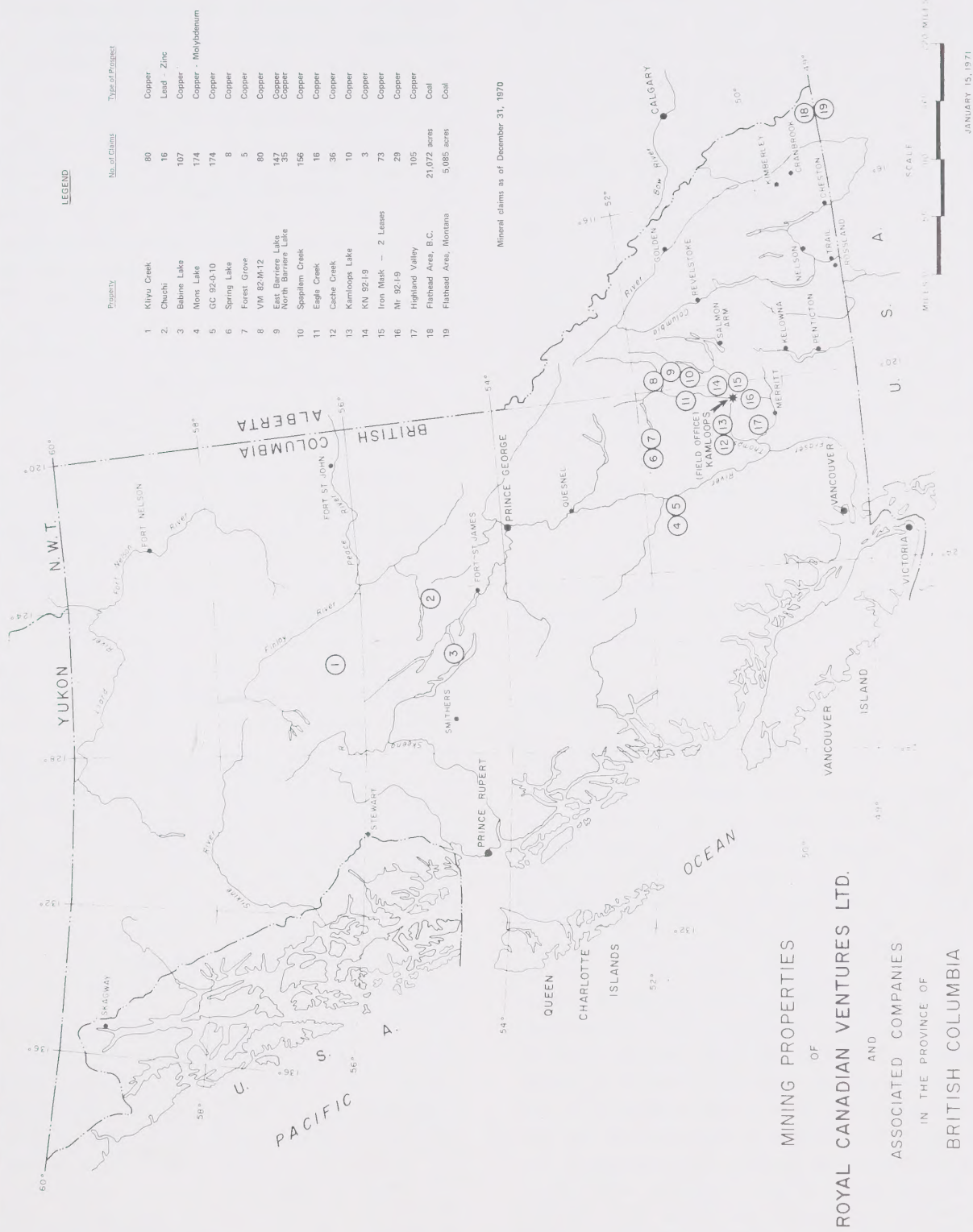
the property in 1969 was further explored in 1970 and additional claims were staked. An induced polarization survey was completed during the summer of 1970, resulting in the delineation of an anomaly which is coincident with the geochemical anomaly. Discussions are now being conducted with major mining companies with a view to farming out this property for further exploration during 1971. As a result of the work done on the Mons Lake Group of claims in this area, another 174 claims were staked in the same general area which are shown as Area 5 (GC 92-0-10) on the map accompanying this report.

Areas 6 & 7

These two areas, originally containing 32 mineral claims, have now been reduced to 13 mineral claims as a result of additional information obtained during 1970. The drilling of a test hole was attempted on Area 6, but was abandoned before reaching bedrock because of overburden conditions and a further program was postponed. On Area 7 a mercury geochemical survey was carried out during 1970 over the magnetic anomaly located in 1969.

Areas 9 & 10

These areas contain a total of 338 mineral claims located in the Barriere Lake region approximately 50 miles north-northeast of Kamloops, B.C. Under the terms of a farmout agreement between various member of the Dynamic Group and Rayrock Mines Limited, a portion of this property was tested during the summer of 1970 by geochemical and induced polarization surveys, mapping and 12 percussion drill holes. As a result of this program and previous drilling conducted by the Dynamic Group, a substantial tonnage of low-grade porphyry copper ore has been proven up. Rayrock, however, did not exercise its option to proceed further with the program, with the result that the property reverted back 100% to the Dynamic Group. Negotiations with a major mining company are now being conducted for the continuing exploration of this property.



MINING EXPLORATION AND DEVELOPMENT

Area 15

Under the terms of an exploration agreement between various members of the Dynamic Group and Great Plains Development Company of Canada Ltd., Great Plains continued its exploration of the Iron Mask group of 73 mineral claims and 2 mineral leases during 1970, using various geochemical and geophysical techniques. 48 percussion and 12 diamond drill holes have been completed. Great Plains will continue its examination of this property in 1971. 29 additional claims in Area 16 (MR 92-I-9) were staked adjacent to the original group. Geochemical and magnetic surveys and geological mapping have been carried out on this Group and results obtained are sufficiently interesting that further examination will be undertaken during 1971.

NORTHERN SASKATCHEWAN

Gulf Minerals Company Agreement

Under the terms of the agreement between various members of the Dynamic Group and Gulf Minerals Company considerable work was accomplished during 1970 and, from inception in 1968 to date, approximately \$5,000,000 has been spent by Gulf Minerals Company on this program. The highlight was the extensive development drilling program which defined in more detail the Rabbit Lake ore body and to date a total of 227 holes representing approximately 130,000 feet of diamond drilling has been completed. Gulf Minerals Canada Limited and Uranerz Canada Limited were formed to implement the terms of the joint venture development negotiated in late 1969 for the mining and milling of the Rabbit Lake ore body and the marketing of yellow cake (uranium oxide) in Germany. Several engineering contracts have been finalized in regard to the engineering and design of the mine-mill complex, the studies associated with the open pit mining of the Rabbit Lake ore body, the town site and associated services. Heavy construction equipment, materials and supplies are being moved in this winter in preparation for mill site clearing and construction, pit development, air strip improvement and initial camp site construction with connecting roads, power facilities and other services.

Concurrent with the development of the Rabbit Lake ore body, Gulf Minerals Company continued its aggressive minerals exploration program on the remainder of the properties which are the subject of the Gulf Minerals agreement. During the 1970 season approximately 70 people, mainly geologists, prospectors and other technical personnel were employed on the properties. These were divided into:

- (a) Ground geophysical prospecting parties who completed definitive ground checks of aerial electromagnetic anomalies.
- (b) Geological reconnaissance groups who completed ground checks on many of the aerial radiometric anomalies and also examined selected geological features.

During the early part of 1970 some anomaly drilling was undertaken on prospects resulting from airborne surveys and previous ground follow-up. As a result of the detailed exploration program conducted during the past prospecting season, Gulf Minerals has a number of additional prospects ready for drilling during the winter of 1971 and drilling has commenced on two of these at the date of this report.

Permo, through its subsidiary companies, has an aggregate direct 25% interest in, 10% of the net profits before pay-out and 20% of the net profits after pay-out, accruing under the terms of the Gulf Minerals agreement.

Westburne Petroleum & Minerals Ltd. Agreement

The area which is the subject of this agreement comprises two mineral exploration permits held jointly by New Continental Oil Company of Canada Limited and Royal Canadian Ventures Ltd. Under the terms of the agreement entered into with Westburne Petroleum & Minerals Ltd., a subsidiary of Westburne International Industries Ltd., Westburne has acquired a 40% undivided working interest in each permit subject to their expending on each permit on or before December 31, 1972, the sum of \$850,000 by way of exploration and development.

MINING EXPLORATION AND DEVELOPMENT

Royal Canadian Ventures Ltd. is the operator of this project. New Continental Oil Company of Canada Limited has a 20% working interest in this property.

Certain anomalous areas on these lands were selected for a winter geophysical and drilling program which commenced in January 1970. Five diamond drill holes were put down on the property prior to the spring break-up in early 1970, one to test each of five separate conductors indicated by the airborne electromagnetic-magnetic survey and ground follow-up. In each case the indicated conductor was located but was found to be either graphite or iron sulphide.

All necessary additional ground geophysical prospecting and ground follow-up to the airborne indicated anomalies was completed and many conductors outlined. These are now ready for testing by diamond drilling.

Scurry-Rainbow Oil Ltd. Agreement

The lands which are the subject of this agreement originally comprised one mineral exploration permit held jointly by New Continental Oil Company of Canada Limited and Royal Canadian Ventures Ltd. in which New Continental Oil Company of Canada Limited has a 20% working interest. During 1970 Scurry-Rainbow elected to be operator under the terms of the agreement and as such carried out additional ground geophysical exploration and prospecting of the property during the past summer season. Ground follow-up and examination of anomalies indicated by the previous airborne radiometric, electromagnetic and magnetic surveys was completed. Claim blocks were then staked covering all of the better anomalies and conductors. Diamond drilling of the property is to commence in January, 1971.

Head Lake Property

This area, comprising 27,635 acres of mineral claims, lies in the Head Lake region, northwest of La Ronge, Saskatchewan, near a rumored nickel discovery. Airborne magne-

tics and electromagnetics have been conducted over these properties. No surface evaluation has been done to date but is being considered for the 1971 prospecting season. The company's subsidiaries have an aggregate 28.6% interest in this property.

Wollaston Lake Southwest Area

This area originally comprised three mineral exploration permits containing some 555,800 acres held 100% by various members of the Dynamic Group. During the summer of 1969 a combined radiometric, electromagnetic and magnetic airborne survey conducted over these lands indicated numerous radioactive anomalies and conductors. During that summer some radioactive anomalies were checked out on the ground. The balance were checked out by ground geophysics and prospecting during the summer of 1970. Mineral claim blocks will be staked to cover all of the better radioactive anomalies and conductors and the next step will be to evaluate these by diamond drilling. The company's subsidiaries have an aggregate 25% interest in these properties.

NORTHERN MANITOBA

Scurry-Rainbow Oil Ltd. Agreement

The lands which are the subject of this agreement originally comprised four mineral reservations held by Royal Canadian Ventures Ltd., New Continental Oil Company of Canada Limited, Dynamic Petroleum Products Ltd. and Permo Gas & Oil Limited. The company and its subsidiary, New Continental Oil Company of Canada Limited, will have an aggregate 14% interest in this property after Scurry-Rainbow has earned an interest therein under the terms of our agreement. During 1970 Scurry-Rainbow elected to be the operator and as such continued during the summer of 1970 with ground geophysical surveys and prospecting of both radioactive anomalies and conductors indicated by the airborne survey which had been carried out during 1969. Claim blocks have been staked covering all of the better prospects. The next step in evaluation of these properties will be diamond drilling of these prospects.

MINING EXPLORATION AND DEVELOPMENT

Dynamic Mining Exploration Ltd. Agreement

The area which is the subject of this agreement originally comprised five mineral reservations containing approximately 600,000 acres, situated in The Pas Mining District of Manitoba. Under the terms of this agreement Dynamic Mining had the right to earn a 40% interest in these mineral reservations in consideration, among other things, of an expenditure in the sum of \$150,466.75 to cover the cost of conducting an exploration and/or development program over the lands contained in the reservations, prior to July 31, 1970, in a manner which would result in the mineral reservations being kept in good standing to September 10, 1970. Dynamic Mining has now fulfilled this commitment.

During the latter part of 1969 an airborne survey was conducted over the lands by Scintrex Limited, Geophysical Consultants, of Toronto, and as a result of this survey approximately 450 electromagnetic events were evidenced and included in 33 separate systems. Magnetic correlation was recorded in approximately 50 of these 450 conductive events.

During the summer of 1970 these conductors were located by ground prospecting parties. This was followed up by ground geophysical surveys, prospecting and geological evaluation of the anomalies. Claim blocks have now been staked covering all of the better conductors and anomalies. The next step in evaluation of these properties will consist of diamond drilling of the many conductors indicated.

The company's subsidiary, New Continental Oil Company of Canada Limited, has a 15% working interest in this agreement and in the claim blocks subject thereto.

Sunlite Oil Company Limited Agreement

The lands which were the subject of this agreement originally consisted of six mineral reservations containing approximately 1,110,500 acres. During 1969 a combined airborne radiometric, electromagnetic and magnetic survey was carried out over the

lands resulting in the outlining of many anomalies and conductors. These were checked out on the ground by prospecting, ground geophysical surveys and geological mapping. Following this, all of the better prospects were covered by mineral claim blocks and some additional mineral claims were staked. The next step in evaluation of these properties will be the testing of the numerous anomalies and conductors by diamond drilling.

The company has a 16% interest in these properties

NORTHWEST TERRITORIES

During 1970 the Dynamic Group continued an active mineral exploration program in the Northwest Territories. The program was confined mainly to two areas where significant uranium discoveries were made in the summer and fall of 1969.

Baker Lake Area

Under the terms of an agreement between various members of the Dynamic Group, Petrobec Limited (a subsidiary of Westburne International Industries Ltd.) and Citizens Pipeline Limited, exploration of certain mineral exploration permits in the Baker Lake area was commenced in the summer of 1969. As a result of this exploration, two significant discoveries of uranium and molybdenum were made which have previously been reported in detail to our shareholders. Following this, additional mineral exploration permits were obtained early in 1970.

The 1970 mineral exploration program in this area was commenced about the middle of May and completed about the end of September. The program was divided into two parts:

- (a) Locating on the ground, prospecting and geological mapping of all radioactive anomalies indicated by the previous airborne radiometric survey over these lands. Trenching and sampling were also done where warranted.

MINING EXPLORATION AND DEVELOPMENT

- (b) Detailed prospecting, geological mapping, trenching and sampling, ground geophysical surveying, and diamond drilling in the vicinity of the two discoveries which had been made in the previous year. Considerable ground magnetometer coverage was obtained.

As a result of the diamond drilling of 12 holes representing 2,234 feet on the mainland discovery, it was found to be discontinuous uranium mineralization in a steeply-dipping dyke-like structure. The likelihood of the occurrence of similar structures in the area is good. Additional exploratory work including diamond drilling in the area is justified.

As a result of 20 diamond drill holes representing 3,852 feet in the vicinity of the second discovery (the Christopher Island discovery) it was found to be surface or near surface uranium and molybdenum mineralization which appears to be associated with a flat-lying or bedded structure of limited extent. Based on the results known to date, further exploratory work is justified.

As a result of the 1970 mineral exploration program in this area a great deal of additional valuable information has been obtained. A substantial amount of ore grade mineral has been proven up but the area still requires further detailed exploration and drilling. Future plans for this area will be based on the results of a detailed study of all of the information available to date. This study is now in progress. The company's subsidiaries have an aggregate 11.43% interest in these properties.

Kazan Falls Area

The Dynamic Group conducted extensive airborne surveys over the Kazan Falls region of the Northwest Territories in 1969. As a result of these surveys and considerable ground follow-up, 791 mineral claims were staked on the anomalous areas where uranium mineralization has been delineated on the ground and three mineral prospecting permits comprising approximately 480,000 acres were acquired early in 1970.

An exploration agreement was then entered into with Dynamic Mining Exploration Ltd. (No Personal Liability) under the terms of which Dynamic Mining acquired an undivided 25% interest in these properties and has the option to earn up to 50%.

During the summer of 1970 an extensive mineral exploration program was carried out over these properties by the Dynamic Group and Dynamic Mining. It consisted of two phases:

- (a) Locating on the ground, geological mapping, and prospecting of all radioactive anomalies indicated by the previous airborne radiometric survey. Where warranted, trenching and sampling were also carried out.
- (b) Detailed prospecting, geological mapping, ground geophysics and diamond drilling of the Kazan Falls radioactive anomaly which was covered by claims staked in the fall of 1969. Trenching and sampling were also carried out where warranted. Five diamond drill holes totalling 2,274 feet were put down on the 69-4 showing. The approach of bad weather and freezing conditions, plus a fire which destroyed the drilling rig, prevented a considerable amount of additional planned drilling.

Investigations to date suggest that the uranium mineralization is very similar to the Beaver Lodge type of deposit and the 69-4 showing contains appreciable amounts of uranium and represents a potential ore deposit. Three main north-south zones have been located to date. Two of the zones have been tested by diamond drilling and all three are in effect open at the north and south extremities and at depth. The No. 2 zone uncovered at the end of the season is perhaps the strongest structurally and holds much potential. Additional diamond drilling is therefore required and would rank first among plans for future evaluation of this area. The company's subsidiaries have an aggregate 21.43% interest in these properties.

ASSETS

	1970	1969
CURRENT		
Cash	\$ 16,501	\$ 22,323
Short term deposits	390,000	45,000
Accounts receivable	60,873	232,795
Marketable securities — at cost (Market value 1969 — \$218,368)	—	231,499
Materials and supplies — at cost	9,759	4,703
	<u>477,133</u>	<u>536,320</u>
INVESTMENTS, DEPOSITS AND OTHER — AT COST		
Operating and performance deposits	45,682	63,708
Government of Canada bonds (quoted market value 1970 — \$60,990)	113,043	—
Shares of and advances to wholly-owned subsidiaries less amount written off	17,503	17,503
1,025,000 shares of Dynamic Petroleum Products Ltd. (quoted market value 1970 — \$1,363,250; 1969 — \$2,808,500)	2,215,000	2,215,000
75,000 shares of Mill City Petroleums Ltd. (quoted market value 1970 — \$111,000; 1969 — \$247,500)	150,000	150,000
100,000 shares of Dynamic Mining Exploration Ltd. (No Personal Liability)	10,000	10,000
	<u>2,551,228</u>	<u>2,456,211</u>
PROPERTY, PLANT AND EQUIPMENT — AT COST		
Non-producing properties	236,064	414,496
Producing properties	1,826,290	1,852,012
Producing oil and gas wells	844,428	956,619
Production and other equipment	459,114	466,835
	<u>3,365,896</u>	<u>3,689,962</u>
Less accumulated depreciation and depletion	1,247,645	1,121,637
	<u>2,118,251</u>	<u>2,568,325</u>
	<u>\$5,146,612</u>	<u>\$5,560,856</u>

Oil Limited

(In thousands of dollars of Ontario)

BALANCE SHEET

1970

August 31, 1969

LIABILITIES

	1970	1969
CURRENT		
Bank loan	\$ 200	\$ 200
Accounts payable	49,876	212,173
	<u>50,076</u>	<u>212,373</u>
MINORITY INTEREST IN SUBSIDIARIES	<u>1,866,718</u>	<u>1,917,444</u>
SHAREHOLDERS' EQUITY		
Capital —		
Authorized — 20,000,000 common shares without par value		
Issued — 13,127,276 shares	10,635,522	10,635,522
Deficit (Statement 2)	7,405,704	7,204,483
	<u>3,229,818</u>	<u>3,431,039</u>
CONTINGENCY (Note 5)		
On behalf of the Board:		
ARCHIE P. NEWALL, Jr., Director		
R. C. BROWN, Director		
	<u>\$5,146,612</u>	<u>\$5,560,856</u>

notes.

Permo Gas & Oil Limited

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

For the Year Ended August 31, 1970

(with comparative figures for 1969)

	1970	1969
REVENUE		
Crude oil and natural gas sales	\$ 278,396	\$ 273,854
Less production expenses	103,610	98,179
	174,786	175,675
Royalties	288,502	252,139
Interest and dividends	19,787	12,220
Other	5,886	4,744
	488,961	444,778
EXPENSE		
Administrative and general	169,240	163,109
Exploratory costs	217,813	108,419
Property carrying costs, lease rentals, etc.	7,790	14,100
Interest	495	17,102
	395,338	302,730
CASH EARNINGS FROM OPERATIONS	93,623	142,048
DEDUCT		
Depletion	107,214	109,840
Depreciation	23,400	19,221
Abandonments:		
Petroleum and natural gas interests	180,415	33,885
Well development costs	116,850	12,812
Loss (gain) on disposal of equipment	25,568	(12,413)
	453,447	163,345
ADD		
Gain on sale of properties	93,107	244,702
Gain on sale of securities	5,770	11,802
	98,877	256,504
LOSS (PROFIT) BEFORE MINORITY INTEREST . . .	260,947	(235,207)
MINORITY INTEREST IN LOSSES (PROFITS) OF SUBSIDIARIES	59,726	(120,005)
NET LOSS (PROFIT) FOR THE YEAR (Note 4) . . .	201,221	(115,202)
DEFICIT, beginning of year	7,204,483	7,319,685
DEFICIT, end of year	<u>\$7,405,704</u>	<u>\$7,204,483</u>

See accompanying notes.

Permo Gas & Oil Limited

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year ended August 31, 1970

(with comparative figures for 1969)

	1970	1969
SOURCE OF FUNDS		
Cash earnings from operations	\$ 93,623	\$ 142,048
Sale of properties	118,742	250,599
Issue of subsidiary's shares on exercise of stock options	9,000	27,600
Repayment of advance to unconsolidated subsidiary . .	—	2,500
Gain on sale of securities	5,770	11,803
Special refundable tax	—	15,830
	<u>227,135</u>	<u>450,380</u>
APPLICATION OF FUNDS		
Petroleum and natural gas and mining interests	2,000	4,350
Well development costs including dry holes	4,659	15,766
Production and other equipment — net	22,349	9,900
Bank loan net of amount included in current liabilities	—	187,500
Shares of Dynamic Mining Exploration Ltd. (No Personal Liability)	—	10,000
Reclassification of Government of Canada Bonds . . .	94,190	—
Increase (decrease) in operating and performance deposits	827	(6,746)
	<u>124,025</u>	<u>220,770</u>
INCREASE IN WORKING CAPITAL	103,110	229,610
WORKING CAPITAL, beginning of year	<u>323,947</u>	<u>94,337</u>
WORKING CAPITAL, end of year	<u>\$ 427,057</u>	<u>\$ 323,947</u>

See accompanying notes.

Permo Gas & Oil Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 1970

1. CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, Consolidated East Crest Oil Company Limited (79.5% owned) and New Continental Oil Company of Canada Limited (55.96% owned). The accounts of the latter company do not include the accounts of its inactive wholly-owned subsidiaries. The parent company's investment in these subsidiaries exceeds their aggregate net assets by \$15,940 at August 31, 1970.

The excess of the cost of the Company's investment in shares of consolidated subsidiaries over its equity in the net assets of the subsidiaries at dates of acquisition has been included in property, plant and equipment.

2. ACCOUNTING POLICY

The Companies' policy is to capitalize the acquisition costs of petroleum and natural gas and mining interests together with development costs thereon. Carrying costs and exploration expenses are charged against income as incurred. Acquisition costs of producing properties together with related development costs and production equipment are written off on a unit of production method based on estimated recoverable reserves. The costs of non-producing properties and unproductive development are charged against income in the year of abandonment.

3. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The Companies bear a portion of the total remuneration paid to their directors and senior officers who are paid by an affiliated company. The amount of such remuneration allocated to the company during the year amounted to \$37,562 and is included in administrative and general expenses.

4. INCOME TAXES

For income tax purposes, the Companies are entitled to claim drilling, exploration and lease acquisition costs and capital costs allowances (depreciation) in amounts which exceed the related charges against earnings. As a result, no income taxes are payable for the current year.

The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes which originate in the financial years commencing on or after January 1, 1968. The Companies do not believe that tax allocation in respect of drilling exploration and lease acquisition costs is appropriate and many other companies in the oil and gas industry in Canada are in agreement with this opinion. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs. For 1970, capital cost allowances claimed will not exceed depreciation provided in the accounts.

Had provision for income taxes been made for all differences in timing of deductions for tax and accounting purposes the net loss for the year ended August 31, 1970 would have been reduced by approximately \$133,000 and the accumulated income tax deferral would have amounted to approximately \$104,000 at that date.

At August 31, 1970, subject to the outcome of the income tax matters referred to in Note 5, the Companies had drilling, exploration, lease costs and capital cost allowance balances of approximately \$900,000 available to be applied against future taxable income. The carrying value of the related assets in the accompanying balance sheet amounts to \$1,368,000.

5. CONTINGENCY

The Department of National Revenue has indicated that it may make certain adjustments to the income tax returns of one of the subsidiary companies (New Continental Oil Company of Canada Limited) as filed in 1968 and prior years. The result of the proposed adjustments would be that income taxes of approximately \$267,000 including interest would become payable, of which \$252,000 would apply to 1967 and prior years, \$7,000 to 1969 and \$8,000 to 1970. The Company believes that the proposals of the Department are without merit and will contest any assessments that may be levied.

AUDITORS' REPORT

To the Shareholders of

Permo Gas & Oil Limited

We have examined the consolidated balance sheet of Permo Gas & Oil Limited and its subsidiaries as at August 31, 1970 and the consolidated statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the outcome of the income tax matters referred to in note 5 to the financial statements, these consolidated financial statements present fairly the financial position of the companies as at August 31, 1970, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.
Chartered Accountants.

Calgary, Alberta
November 10, 1970

COMBINED ACREAGE HOLDINGS
of
PERMO GAS & OIL LIMITED
NEW CONTINENTAL OIL COMPANY OF CANADA LIMITED
CONSOLIDATED EAST CREST OIL COMPANY LIMITED

(Varying Interests)

at AUGUST 31, 1970

PETROLEUM AND NATURAL GAS INTERESTS

PRODUCING P&NG LEASES	ACREAGE	INT. %	FARMEE OR OPERATOR
Alberta			
Fairydell	160	33.3333	Union Oil Company of Canada
Lochend	1,440	29.2308	New Continental
Lochend	160	15.8333	" "
Lochend	160	14.6154	" "
Rainbow	320	33.3333	" "
Rainbow	480	66.6666	" "
Saskatchewan			
Doddsland	960	100.	New Continental
	<u>3,680</u>		
UNITIZED		TRACT FACTOR	
Alberta			
Homeglen Rimbey Unit No. 1	160	.0074	Chevron Standard Limited
Joarcam Unit No. 3	160	.6254	Imperial Oil Ltd.
Leduc Woodbend D-2A Unit	160	1.307	Imperial Oil Ltd.
Pembina Cardium Unit No. 31	2,240	2.8584	Western Decalta Petroleum
Swan Hills Inverness Unit No. 1	640	.533	Home Oil Company
Turner Valley Unit No. 7	100	1.0875	Gulf Oil Canada
Saskatchewan			
Eagle Lake Viking Voluntary Unit	844	5.2508	Imperial Oil Ltd.
	<u>4,304</u>		
P&NG LEASES		INT. %	
Alberta			
Leduc	160	3.75	GOR Guaranty Trust Company
Leduc	160	.8333	GR " " "
Leduc	80	.8333	NR " " "
Leduc	120	1.25	GR " " "
Leduc	120	.75	NR " " "
Leduc	160	.5	GR " " "
Leduc	40	2.5	GR Tenneco Oil & Minerals, Ltd.
Leduc	160	.25	GR Canada Permanent Trust Co.
Leduc	640	.5729	GR Guaranty Trust Company
Leduc	160	3.3833	NR " " "
Purple Springs	40	1.5	GOR Brett Oils Ltd.
Rimbey	160	.1	GR Guaranty Trust Company
Rimbey	640	.2	GR " " "
Rimbey	160	.2	GR Montreal Trust Company
Rimbey	160	.5	GR Guaranty Trust Company
Wood River	160	1.	GR City Savings and Trust Co.
British Columbia			
Milligan Creek	32,647	2.	GOR Union Oil of Canada
Milligan Creek	41,036	2.5	GOR " " " "
	<u>76,803</u>		
British Columbia			
Fort St. John		90.	DNI Pacific Petroleums

Interest percentages, unless otherwise noted, are working interests.

GOR — Gross Overriding Royalty.

GR — Gross Royalty.

NR — Net Royalty.

NCI — Net Carried Interest.

NPI — Net Profits Interest.

DNI — Deferred Net Income.

CI — Carried Interest.

NON PRODUCING P&NG LEASES	ACREAGE	INT. %	FARMEE OR OPERATOR
Alberta			
Cyn-Pem	2,079	21.06	Western Decalta Petroleum
Cyn-Pem	320	40.	Ashland Canadian Oil
Cyn-Pem	480	20.	Western Decalta Petroleum
Cyn-Pem	1,600	11.76	" " "
Cyn-Pem	640	25.	Ashland Canadian Oil
Edson	1,760	20.	Mic Mac Oils
Lanaway	480	50.	Western Decalta Petroleum
Lochend	3,072	29.2308	New Continental
McLeod River	8,154	40.	Western Decalta Petroleum
Rainbow	320	66.6666	New Continental
Rainbow South	320	40.	" " "
Virginia Hills East	5,755	25.	Canadian Superior Oil
South Thurston Lake	3,520	25.	Gulf Oil Canada
Sturgeon Lake	640	25.	Western Decalta Petroleum
Saskatchewan			
Bone Creek	320	33.3333	Canadian Superior Oil Ltd.
Doddsland	154	100.	New Continental
Southwest Saskatchewan	320	25.	Canadian Superior Oil Ltd.
Stoughton	320	33.3333	" " " "
British Columbia			
Boundary Lake	160	10.	Western Decalta Petroleum
Buick Creek	5,163	12.5	" " "
Buick Creek	326	6.25	" " "
	<u>35,903</u>		
P&NG LEASES, RESERVATIONS, PERMITS			
Alberta			
Conrad	1,600	3.	GOR Bozlan Oil
Grand Prairie	5,102	.625	GOR French Petroleum
Leduc	40	1.	GR Guaranty Trust Company
Leduc	40	.5	GR " " "
Leduc	40	.75	NR " " "
Lochend	640	3.	GOR Canadian Superior Oil Ltd.
McGregor Lake	160	2.5	GOR Transalta Minerals
McLeod River	49,710	1.	GOR Hudson's Bay Oil and Gas
Morinville	320	1.5	GR Guaranty Trust Company
Morinville	160	2.5	GR Westburne Oil & Minerals
Purple Springs	280	1.	GOR Brett Oils Ltd.
Red Coulee	480	2.	GOR Border Exploration
Red Coulee	320	4.	GOR " " "
Red Coulee	320	1.	GOR " " "
Rimbey	160	.075	GR Montreal Trust Company
Rimbey	160	.075	GR National Trust Company
Rimbey	160	.15	GR Guaranty Trust Company
Rimbey	160	.175	GR " " "
Rimbey	160	.325	GR Montreal Trust Company
Savanna Creek	39,200	2.5	GOR Shell Canada
Taber	160	.3	GR London & Western Trust
Taber	2,960	.03	GR " " "
Turner Valley	40	22.2	NR Canada Permanent Trust
Turner Valley	40	12.5	NR Guaranty Trust Company
Wood River	160	1.	GR City Savings and Trust Co.
Zama West	3,840	1.2	GOR Amoco Canada Petroleum
British Columbia			
Aitken Creek	50,454	1.	NPI Union Oil of Canada
Toad River	35,920	.8333	NCI Amoco Canada Petroleum
Saskatchewan			
Cabri	477	.4166	GOR Anardarko Petroleum
Cabri	1,436	.2084	GOR " " "
Cabri	798	.8334	GOR " " "
Sask. 4-Way Group	800	.625	GOR Canadian Superior Oil Ltd.
Northwest Territories	544,529	3.	GOR Western Decalta Petroleum
Alaska	7,680	7.5	CI Home Oil Company
	<u>748,506</u>		
BITUMINOUS SANDS LEASE			
Alberta	<u>22,054</u>	10.	CI Syncrude Canada Ltd.

MINERAL INTERESTS

BRITISH COLUMBIA	NUMBER	INT. %	FARMEE OR OPERATOR
Claims			
Babine Lake	107	28.5714	Royal Canadian Ventures Ltd.
Beece Creek	30	"	" " " "
Cache Creek	36	"	" " " "
Chuchi	16	"	" " " "
Dardanelles Lake	17	"	" " " "
Eagle Creek	22	"	" " " "
East Barriere Lake	118	"	Rayrock Mines Ltd.
East Barriere Lake	26	"	Royal Canadian Ventures Ltd.
Forest Grove	5	"	" " " "
Iron Mask	73	"	Great Plains Development
Kamloops Lake	44	"	Royal Canadian Ventures Ltd.
Kliyu Creek	80	"	" " " "
KN 92I/9	3	"	" " " "
Mons Lake	194	"	" " " "
MR 92I/9	24	"	" " " "
North Barriere Lake	46	"	" " " "
Spapilem Creek	226	"	" " " "
Spring Lake	8	"	" " " "
VM 82M/12E	58	"	" " " "
	<u>1,133</u>		
LEASES			
Iron Mask	<u>2</u>	28.5714	Great Plains Development
SASKATCHEWAN	ACREAGE	INT. %	FARMEE OR OPERATOR
PERMITS			
Wollaston Lake	1,244,366	25. interest in 20% defined net profits interest	Gulf Minerals Company
Wollaston Lake	363,800	25.	New Continental
Wollaston Lake	345,000	20.	Westburne Petroleum & Minerals
Wollaston Lake	192,000	40.	Scurry-Rainbow Oil Limited
CLAIMS & CLAIM BLOCKS			
Head Lake	27,635	28.5714	New Continental
Wollaston Lake	24 cl.	50.	Royal Canadian Ventures Ltd.
Wollaston Lake	1 cl.	25. interest in 20% defined net profits interest	Gulf Minerals Company
Wollaston Lake	4,620	25.	New Continental
MANITOBA			
RESERVATIONS			
Jackfish Lake	601,867	15.	Dynamic Mining Exploration
CLAIM BLOCKS & CLAIMS			
Misty Lake	18,717	28.	Scurry-Rainbow Oil Limited
Misty Lake	6 cl.	28.	" " " "
Kasmere Lake	12,502	12.	Dynamic Petroleum Products
Kasmere Lake	8 cl.	12.	" " " "
Kasmere Lake	8,966	16	" " " "
NORTHWEST TERRITORIES			
PERMITS			
Baker Lake	634,355	11.4286	Petrobec Limited
Baker Lake	124,190	4.5714	Fort Reliance Minerals
Baker Lake	480,279	21.43	Dynamic Mining Exploration
CLAIMS			
Baker Lake	791 cl.	21.43	Dynamic Mining Exploration
Baker Lake	75 cl.	11.4286	Petrobec Limited
Hjalmar Lake	227 cl.	28.5714	New Continental
MONTANA			
COAL PERMIT			
Flathead	5,085	10.	Summit King Mines Limited & The Kemmerer Coal Company

Permo Gas & Oil Limited

INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the management of Permo Gas & Oil Limited (hereinafter called "the Company") of proxies to be used at the Annual and Special General Meeting of the Shareholders of the Company to be held at the offices of the Company, 210, 736 - 8th Avenue S.W., Calgary, Alberta, on Wednesday, the 24th day of February, A.D. 1971 at the hour of 2:00 o'clock in the afternoon (M.S.T.) for the purposes set forth in the notice of the meeting accompanying this information circular. The costs incurred in the preparation and mailing of both the proxies and this information circular will be borne by the Company and this solicitation is confined to the mailing of this information to registered shareholders. The information contained herein is given as of the date of the accompanying notice of meeting.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are Directors of the Company. The person or company submitting the proxy shall have the right to appoint a person to represent him or it at the meeting other than the person or persons designated in the form of proxy as submitted by the Company and such appointment may be exercised by the deletion or striking out of the persons so designated and inserting in the blank space provided in the proxy the name of the appointed representative, such deletion or striking out to be initialled by the person or officers signing such proxy.

Any person or company giving such proxy shall have the power to revoke such proxy by an instrument in writing duly executed and deposited either at the Calgary office of the Company prior to the meeting or with the Chairman on the day of the meeting.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. In the absence of such direction, it is intended that such shares will be voted for the approval of the resolution to approve the Employee Stock Option Plan set forth under that heading in this circular, for the election of directors as stated under that heading in this circular and for the appointment of auditors as stated under that heading in this circular. The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, and with respect to other matters which may properly come before the meeting, provided that the Company is not aware, a reasonable time prior to the time this solicitation is made, that any such amendments, variations or other matters are to be presented for action at the meeting. At the time of printing of this information circular the management of the Company knows of no such amendments, variations or other matters to come before the meeting other than the matters referred to in the notice of meeting.

VOTING SHARES AND PRINCIPAL SHAREHOLDERS

On the date of the accompanying notice of meeting the Company had outstanding 13,127,276 common shares without nominal or par value, the holders of which are entitled to one vote for each such share registered in their name. Holders of common shares of record at the time and date of the meeting are entitled to vote at the meeting. The register of transfers will not be closed.

Mill City Petroleum Limited is the beneficial owner of 6,096,694 shares representing 46% of the issued and outstanding shares of the Company.

ELECTION OF DIRECTORS

The following are the names of the persons for whom it is intended that votes will be cast for their election as Directors pursuant to the proxy which is hereby solicited: Frank Brown, Robert Clive Brown and Archibald P. Newall, Jr. The term of office for each Director is from the date of the meeting at which he is elected until the annual meeting next following or until his successor is elected or appointed.

Information Concerning Nominees as Directors

Name	Year first became a Director	Shares of the Company beneficially owned
Frank Brown	1966	3,001
Robert Clive Brown	1966	1
Archibald P. Newall, Jr.	1966	1

Shares beneficially owned in subsidiary companies

Name	Shares of New Continental Oil Company of Canada Limited	Shares of Consolidated East Crest Oil Company Limited
Frank Brown	15,501	1
Robert Clive Brown	401	1
Archibald P. Newall, Jr.	1	1

The above named nominees during the past five years have been Directors and/or Officers of associated companies, Mill City Petroleum Limited, Dynamic Petroleum Products Ltd. and Royal Canadian Ventures Ltd. When Mill City Petroleum Limited acquired effective control of the Company in 1966 they were elected Directors of the Company and of its subsidiaries, New Continental Oil Company of Canada Limited and Consolidated East Crest Oil Company Limited. Robert Clive Brown is President of the Company and Archibald P. Newall, Jr. is Vice-President.

According to information furnished by the respective Directors individually, they are collectively the beneficial owners of 20,019 shares of the capital stock of Mill City Petroleum Limited.

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The Company and its subsidiaries bears a portion of the total remuneration paid to its Directors and Senior Officers who are paid by an associated company. The amount of such remuneration allocated to the Company and its subsidiaries during the year amounted to \$37,562 and in addition the sum of \$2,510 was allocated to cover pension or retirement benefits. These amounts are included in administrative and general expense in the consolidated financial statements.

FORMER OPTIONS

Pursuant to Stock Option Agreement dated April 21, 1966, an officer of the Company's subsidiary, New Continental Oil Company of Canada Limited ("New Continental"), was granted an option to purchase 50,000 shares of the capital stock of New Continental at a price of \$0.30 per share, exercisable over five years commencing on or after April 21, 1967. Since the beginning of New Continental's last fiscal year (1st September, 1969) this option was exercised to the extent as follows:

<u>Common Shares</u>	<u>Option Price</u>	<u>Date of Exercise</u>	<u>Price range 30 days preceding exercise</u>
10,000	30c	June 1, 1970	70c - \$1.35

OPTIONS

The Directors of the following companies, namely, Mill City Petroleum Limited, Dynamic Petroleum Products Ltd., Crusade Petroleum Corporation Limited, Dynalta Oil & Gas Co. Ltd., Royal Canadian Ventures Ltd., Permo Gas & Oil Limited, New Continental Oil Company of Canada Limited and Consolidated East Crest Oil Company Limited ("the Dynamic Group of Companies"), by resolutions passed the 13th day of October and the 17th day of November, 1970, implemented a joint Employee Stock Option Plan ("the plan") as an incentive to, and for the benefit of, their common full-time employees, subject to the approval of the Stock Exchanges on which the shares of the Dynamic Group of Companies are listed and any necessary approval of shareholders. The subject plan provides, among other things, as follows:

- (a) Each employee will have the opportunity to participate in the plan, as of June 10, 1970 ("the effective date") and be granted an option to purchase over a period of five years a number of shares of each company arrived at pursuant to the following formula:

$$\frac{\text{employee's annual salary on effective date}}{\text{total annual salaries of all employees on effective date}} \times 1\% \text{ of the total of each company's issued and outstanding common shares on effective date}$$

- (b) As of the effective date, the purchase price per optioned share of the Company is established at \$0.61. During the 30-day period preceding the effective date, the price range was \$0.60 - \$0.92. Subject to the provisions of the plan, the price per optioned share under any option agreement entered into with a new employee shall be determined in accordance with the rules and regulations of the Toronto Stock Exchange prevailing at the time.
- (c) The Company has reserved 131,273 shares of the capital stock of the Company (being a number equal to 1% of its presently issued and outstanding common shares) for issuance from time to time to present employees upon exercise of options granted to them and for issuance to future employees to whom options are granted, pursuant to the terms and conditions of the plan.
- (d) Future employees will only be able to participate in the plan, on a basis comparable to present employees, to the extent that shares become available from time to time from options granted to present employees by reason of terminations of employment or otherwise and providing the total number of shares reserved for all purposes of the plan does not at any time exceed 131,273 shares.

If the aforesaid Employee Stock Option Plan is approved by the shareholders of the Company and its subsidiaries, options aggregating 42,859 shares of the Company, 20,144 shares of New Continental Oil Company of Canada Limited and 5,222 shares of Consolidated East Crest Oil Company Limited will be granted to Directors and Senior Officers.

RESOLUTION TO APPROVE EMPLOYEE STOCK OPTION PLAN

In order to approve the plan referred to above under the heading "Options", the shareholders of the Company will be asked to consider and, if thought fit to pass, with such amendments if any as may be approved, the following resolution:

"BE IT RESOLVED that the Employee Stock Option Plan implemented by the Directors of the Company pursuant to resolutions passed the 13th day of October, 1970 and the 17th day of November, 1970 and the granting of options pursuant thereto not to exceed in the aggregate 131,273 common shares of the capital stock of the Company, be and the same is hereby ratified, approved and confirmed."

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the re-appointment of Clarkson, Gordon & Co., Chartered Accountants, Calgary, Alberta, the present auditors, as auditors of the Company to hold office until the next annual meeting of shareholders. The said auditors have been auditors for the Company since its inception in 1956.

BY ORDER OF THE BOARD

E. F. LOWICK
Secretary

DATED: January 29, 1971

Permo Gas & Oil Limited

INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the management of Permo Gas & Oil Limited (hereinafter called "the Company") of proxies to be used at the Annual and Special General Meeting of the Shareholders of the Company to be held at the offices of the Company, 210, 736 - 8th Avenue S.W., Calgary, Alberta, on Wednesday, the 24th day of February, A.D. 1971 at the hour of 2:00 o'clock in the afternoon (M.S.T.) for the purposes set forth in the notice of the meeting accompanying this information circular. The costs incurred in the preparation and mailing of both the proxies and this information circular will be borne by the Company and this solicitation is confined to the mailing of this information to registered shareholders. The information contained herein is given as of the date of the accompanying notice of meeting.

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Any person or company giving such proxy shall have the power to revoke such proxy by an instrument in writing duly executed and deposited either at the Calgary office of the Company prior to the meeting or with the Chairman on the day of the meeting.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. **In the absence of such direction, it is intended that such shares will be voted for the approval of the resolution to approve the Employee Stock Option Plan set forth under that heading in this circular, for the election of directors as stated under that heading in this circular and for the appointment of auditors as stated under that heading in this circular.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, and with respect to other matters which may properly come before the meeting, provided that the Company is not aware, a reasonable time prior to the time this solicitation is made, that any such amendments, variations or other matters are to be presented for action at the meeting. At the time of printing of this information circular the management of the Company knows of no such amendments, variations or other matters to come before the meeting other than the matters referred to in the notice of meeting.

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The Company and its subsidiaries bears a portion of the total remuneration paid to its Directors and Senior Officers who are paid by an associated company. The amount of such remuneration allocated to the Company and its subsidiaries during the year amounted to \$37,562 and in addition the sum of \$2,510 was allocated to cover pension or retirement benefits. These amounts are included in administrative and general expense in the consolidated financial statements.

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<u>Common Shares</u>	<u>Option Price</u>	<u>Date of Exercise</u>	<u>Price range 30 days preceding exercise</u>
10,000	30c	June 1, 1970	70c - \$1.35

OPTIONS

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BY ORDER OF THE BOARD

E. F. LOWICK
Secretary

DATED: January 29, 1971